OREGON PERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

11410 SW 68th Parkway, Tigard OR 97223
Mailing Address – PO Box 23700, Tigard OR 97281-3700
Toll free – 888-320-7377 Fax – 503-598-0561
Website – https://oregon.gov/pers

Federal Tax Information Disclosure

You are receiving this notice because all or a portion of a distribution you are receiving from your PERS Chapter 238 Program (Tier One/Tier Two) or Oregon Public Service Retirement Plan (OPSRP) Pension Program or Individual Account Program benefit is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover.

Rules that apply to most distributions from PERS are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

General information about rollovers

How can a rollover affect my taxes?

You will be taxed on your distribution from PERS if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). However, if you do a rollover, you will not have to pay tax until you receive distributions later and the 10% additional income tax will not apply if those distributions are made after you are age 59½ (or if an exception applies).

Where may I roll over the distribution?

You may roll over the distribution to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to distribution from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, PERS will make the distribution directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the distribution to make the deposit. If you do not do a direct rollover, PERS is required to withhold 20% of the distribution for federal income taxes. This means that, in order to roll over the entire distribution in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the distribution, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59½ (unless an exception applies).

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How much may I roll over?
If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any distribution from PERS is eligible for rollover, except:

- Certain distributions spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Required minimum distributions age 70½ (if born before July 1, 1949), age 72 (if born after June 30, 1949), or age 73 (if born after December 31, 1950).
- Hardship distributions
- Corrective distributions of contributions that exceed tax law limitations
- Cost of life insurance paid by PERS
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment

The PERS administrator or the payer can tell you what portion of a distribution is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?
If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any distribution from PERS (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the distribution not rolled over.

The 10% additional income tax does not apply to the following distributions from PERS:

- Distributions made after you separate from service if you will be at least age 55 in the year of the separation
- Distributions that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- Distributions from a governmental defined benefit pension plan made after you separate from service if you are a public safety employee and you are at least age 50 in the year of the separation
- Distributions made due to disability
- Distributions after your death
- Corrective distributions of contributions that exceed tax law limitations
- Cost of life insurance paid by PERS
- Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment
- Distributions made directly to the government to satisfy a federal tax levy
- Distributions made under a qualified domestic relations order (QDRO)
- Distributions up to the amount of your deductible medical expenses
- Certain distributions made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001, for more than 179 days
- Distributions of certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution.

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If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a distribution from an IRA when you are under age 59½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for distributions from an IRA, including:

- There is no exception for distributions after separation from service that are made after age 55.
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).
- The exception for distributions made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) distributions for qualified higher education expenses, (2) distributions up to $10,000 used in a qualified first-time home purchase, and (3) distributions after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Special rules and options

Will I owe state income taxes?

This notice does not describe any state or local income tax rules (including withholding rules).

If your distribution includes after-tax contributions

After-tax contributions included in a distribution are not taxed. If a distribution is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the distribution. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a distribution.

You may roll over to an IRA a distribution that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later distributions from the IRAs). If you do a direct rollover of only a portion of the amount paid from PERS and a portion is paid to you, each of the distributions will include an allocable portion of the after-tax contributions. If you do a 60-day rollover to an IRA of only a portion of the distribution made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals $12,000, of which $2,000 is after-tax contributions. In this case, if you roll over $10,000 to an IRA in a 60-day rollover, no amount is taxable because the $2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a distribution that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a distribution that includes after-tax contributions, but only up to the amount of the distribution that would be taxable if not rolled over.

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If you miss the 60-day rollover deadline
Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the distribution of a nonrefundable user fee. For more information, see IRS Publication 590, *Individual Retirement Arrangements (IRAs)*.

If you were born on or before January 1, 1936
If you were born on or before January 1, 1936, and receive a lump-sum distribution that you do not roll over, special rules for calculating the amount of the tax on the distribution might apply to you. For more information, see IRS Publication 575, *Pension and Annuity Income*.

If you are an eligible retired public safety officer and your pension distribution is used to pay for health coverage or qualified long-term care insurance
If you retired as a public safety officer and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income distribution paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of $3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

If you roll over your distribution to a Roth IRA
You can roll over a distribution made before January 1, 2010, to a Roth IRA only if your modified adjusted gross income is not more than $100,000 for the year the distribution is made to you and, if married, you file a joint return. These limitations do not apply to distributions made to you from PERS after 2009. If you wish to roll over the distribution to a Roth IRA, but you are not eligible to do a rollover to a Roth IRA until after 2009, you can do a rollover to a traditional IRA and then, after 2009, elect to convert the traditional IRA into a Roth IRA.

If you roll over the distribution to a Roth IRA, a special rule applies under which the amount of the distribution rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within five years, counting from January 1 of the year of the rollover). For PERS distributions during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a two-year period starting in 2011.

If you roll over the distribution to a Roth IRA, later distributions from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a distribution made after you are age 59½ (or after your death or disability or as a qualified first-time homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least five years. In applying this five-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Distributions from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, *Individual Retirement Arrangements (IRAs)*. You cannot roll over a distribution from PERS to a designated Roth account in an employer plan.

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If you are not a plan participant

Distributions after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the participant was born on or before January 1, 1936.

If you are a surviving spouse

If you receive a distribution from PERS as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA. An IRA you treat as your own is treated like any other IRA of yours, so that distributions made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until age 70½ (if born before July 1, 1949), age 72 (if born after June 30, 1949), or age 73 (if born after December 31, 1950). If you treat the IRA as an inherited IRA, distributions from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from PERS, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70½ (if born before July 1, 1949), age 72 (if born after June 30, 1949), or age 73 (if born after December 31, 1950).

If you are a surviving beneficiary other than a spouse

If you receive a distribution from PERS because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Distributions from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Distributions under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a distribution from PERS under a qualified domestic relations order (QDRO), you generally have the same options the participant would have (for example, you may roll over the distribution to your own IRA or an eligible employer plan that will accept it). Distributions under the QDRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, PERS is generally required to withhold 30% of the distribution for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, *U.S. Tax Guide for Aliens*, and IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*.

Other special rules

If a distribution is one in a series of distributions for less than 10 years, your choice whether to make a direct rollover will apply to all later distributions in the series (unless you make a different choice for later distributions).

If your distributions for the year are less than $200, PERS is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.

Unless you elect otherwise, a mandatory cashout of more than $1,000 will be directly rolled over to an IRA chosen by PERS or the payer. A mandatory cashout is a distribution from PERS to a participant made before age 62 (or normal retirement age, if later) and without consent, where the participant's benefit does not exceed $5,000 (not including any amounts held under the plan as a result of a prior rollover made to the plan). You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, *Armed Forces' Tax Guide*.

For more information

You may wish to consult with a professional tax advisor before taking a distribution from PERS. Also, you can find more detailed information on the federal tax treatment of distributions from employer plans in

- IRS Publication 575, *Pension and Annuity Income*
- IRS Publication 590, *Individual Retirement Arrangements (IRAs)*
- IRS Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans)*

These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 800-TAX-FORM.